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June 10, 2005

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Federal Communications Commission
Office of Secretary

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Applications for Consent to Transfer Control of Filed by Verizon Communications, Inc. and MCI, Inc., WC Docket No. 05-75 - REDACTED

Dear Ms. Dortch:

The attached letter was provided to Chairman Kevin Martin and I am respectfully requesting it be placed on the record in the above proceeding. Please let me know if you have any questions.

Sincerely,

Ann D Berkowitz

Attachment

cc: Commissioner Martin
Dan Gonzalez
Michelle Carey
Sam Feder
Jessica Rosenworcel
Scott Bergmann
Jim Bird
Julie Veach
Marcus Maher
Tom Navin
Gail Cohen
William Dever

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June 10, 2005

BY HAND AND ECFS

The Honorable Kevin Martin
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: *Applications for Consent to Transfer of Control Filed by Verizon Communications Inc. and MCI, Inc.*, WC Docket No. 05-75

Dear Chairman Martin:

We write on behalf of Verizon and MCI in response to the *ex parte* submission of Broadwing Communications LLC and Savvis Communications, Inc., dated May 26, 2005, suggesting that the combination of Verizon and MCI may leave commercial and institutional customers with fewer competitive options. That claim is incorrect: the record demonstrates that the combination of Verizon and MCI will benefit commercial and institutional customers in a fiercely competitive market environment.

The evidence in this docket establishes beyond serious dispute that the commercial and institutional segment of the telecommunications market is highly competitive and will remain so after the combination of Verizon and MCI. With its application, Verizon provided a detailed analysis of various providers' share of revenues from commercial and institutional customers. *See* Declaration of Jeffrey Taylor. That analysis was based on information from Wall Street analysts, secondary research vendors, and Verizon's own primary research, and is used for Verizon's business planning. Those data demonstrate that the *largest* provider of services to commercial and institutional customers, AT&T, has **[begin** proprietary] **[end proprietary]** of the revenues; MCI and Verizon *combined* have **[begin proprietary]** **[end proprietary]**. Those data also demonstrated the significance of non-traditional communications service providers: CLECs, systems integrators, IP applications providers, and equipment vendors have captured **[begin proprietary]** **[end proprietary]** of communications spending. *See* Declaration of Jeffrey Taylor, Exh. 2. Verizon also provided a detailed report from Lehman Brothers showing MCI and Verizon *combined* with a predicted share of just 22% of enterprise revenues in 2005. *See* Declaration of Eric Bruno and Shelley Murphy, Exh. 1.

Particularly in light of these data, the Control Point Solutions survey cited by the *Wall Street Journal* provides no basis for inferring that the combination of Verizon and MCI will lead to any reduction in the competitiveness of the commercial and institutional segment. That survey – issued by a consulting firm which is in the business of helping clients to negotiate telecom service deals – claimed that before the proposed combinations of SBC and AT&T and MCI and Verizon, "businesses collectively received about 50% of their telecom services from their various top-two providers" and that, if the two transactions are completed, "businesses will receive 87% of their services from their top-two providers." Jesse Drucker & Christopher Rhoads, "Phone Consolidation May Cost Corporate Clients Clout," *Wall Street Journal* at B1 (May 4, 2005). On this fact, the Control Point Solutions survey says little about the competitiveness of the commercial and institutional segment. The survey indicates only that, after the proposed transactions, if customers continued to purchase communications services from the same providers, they would acquire a greater percentage of those services from their primary and secondary providers. That assumption is itself contrary to the evidence in the record. Spending on communications services is undergoing a rapid evolution, with less spending on traditional voice and data services and increased spending on converged voice and data and other IP-based services, as well as wireless services. *See* Bruno/Murphy Decl. ¶¶ 10, 17. Even the article submitted by Broadwing and Savvis acknowledges that "changes in technology mean that there will likely be many more companies competing" with the "integration of voice and data on digital networks and the arrival of Internet calling . . . attract[ing] a slew of new players to the phone industry, such as Microsoft Corp., Sony Corp. . . . America OnLine and EarthLink Inc."

In today's marketplace, many companies – including the broad array of providers described in our prior filings – act as primary or secondary communications service providers for commercial and enterprise customers. Until recently, Verizon has been limited in its ability to play the role of primary or secondary provider to large enterprises because of restrictions on provision of interLATA service, and Verizon remains a niche player in this segment. Verizon does anticipate that the combination with MCI will permit the combined company to offer a broader range of services and enhanced service management; the combined entity will thus be able to meet more of its customers' communications services needs. But this does not suggest any reduction in competition: customers generally *welcome* opportunities for such one stop shopping and a single point of contact for their communications service needs. At the same time, large commercial and institutional customers also require secondary and often tertiary service providers that can ensure network redundancy so that they are not dependent on any single provider. This is a further reason why simply adding the percentage of spending with current top-two providers gives little insight into how the marketplace will look after the proposed transactions.

In any event, the Commission cannot credit a consulting firm's press statement without any basis for assessing the methodology or reliability of the underlying data. Based on the data described above, the survey's claim is nonsense. First, combining the shares of SBC, AT&T, MCI, and Verizon is a meaningless exercise: Verizon and MCI compete fiercely today with SBC and AT&T and will continue to do so after the combination of Verizon and MCI. Second, in light of industry revenue share data, it is simply not plausible that, for any reasonable sample of enterprise customers, telecom spending would become as concentrated as the Control Point Solutions' survey claims. Notably, the same survey asserts that the combination of SBC and AT&T *alone* would lead to an increase in telecom spending with "top-two" providers from about 50 percent to 76 percent of total spending. *See* J. Van, "Rate Hikes in Offing After Phone Takeovers," *Chicago Tribune* at 1 (May 29, 2005). That is mathematically impossible: if the top-two providers account for 50% of total spending, then – even if each of the top three providers had an identical 25% share – the consolidation of two of those providers could not increase the collective share to more than 75%.

In sum, the combination of Verizon and MCI will provide substantial benefits to commercial and institutional customers without any reduction in the fierce competition that characterizes the marketplace today.

Sincerely,

Dee May
Verizon

Curtis Groves
MCI

cc: Julie Veach
William Dever
Ian Dillner
Gail Cohen